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MORTGAGE LENDING IN UKRAINE: CURRENT STATE AND PROSPECT

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Анотація. У статті висвітлено аналіз іпотечного кредитування за останні роки банківської діяльності в Україні. Показано активність первинного та вторинного ринків і фактори, що їх стримують. Подано погляд на перспективу розвитку іпотечного кредитування.

Аннотация. В статье освещен анализ ипотечного кредитования за последние годы банковской деятельности в Украине. Показано активность первичного и вторичного рынков и факторы, что их сдерживают. Подано взгляд на перспективу развития ипотечного кредитования.

Summary. The article deals with the analysis of mortgage lending in recent years banking operations in Ukraine. Activity of the primary and secondary markets and the factors that hinder them are discovered. Look at future of mortgage lending is proposed.

Ключові слова: банк, іпотечне кредитування, посткризовий період, нерухомість, первинний ринок, вторинний ринок

Ключевые слова: банк, ипотечное кредитование, посткризисный период, недвижимость, первичный рынок, вторичный рынок.

Key words: bank, mortgage loans, post-crisis period, real estate, primary market, secondary market.

Statement of the problem. Today, mortgages are an important factor in stimulating economic development. Exploring issues of mortgage lending in Ukraine, we can say that in Ukraine there is a coherent position on the concept of the development of mortgage lending. This uncertainty leads to significant problems in the creation and functioning of various institutions in the primary and secondary mortgage market.

And besides, of course, unresolved social and economic issues of provision of housing and thus revive the economy through manufacturing.

Analysis of recent research and publications. In domestic and foreign economic literature is occupied by the study of bank mortgage lending. The problem of mortgage pays considerable attention to such foreign economists as Ashauer, Johnson, Douglas, Strike, Friedman. Some aspects explored in the works of famous Ukrainian scientists Borisova, Daci, Evtukh, Ivanova, Kalinchyka, Kashenko, Kravchenko, Lagutin, Mishchenko, Fedorov, Kruchka, Kudryavtseva, Kosarev and others.

The purpose of the article is to investigate the current state of mortgage lending in Ukraine and its future outlook.

Justification of scientific results. In the post-crisis period, the volume offers mortgage loans in Ukraine is much lower compared to pre-crisis 2006-2008 years, as these loans are less available [1].

It should be noted that in 2009–2011, the Ukrainian mortgage market has undergone major upheavals:

- Was completely abandoned all mortgage programs;
- The growing problem of stable sources of funding mortgage loans;
- Banks trying to minimize their currency risk – first appeared restructuring program loans that have been sent to change the currency in the foreign national. Then it was abandoned almost all foreign currency loans, and those loans issued by banks now appear only in local currency;
- Fall in property prices – this, in turn, has led to the fact that the value of collateral is no longer cover the cost of credit, leading to deterioration of mortgage portfolios [2].

As a result, mortgage lending is almost completely stopped. Not only unreleased new lending, and began to decrease existing portfolio – with more than 98 billion USD per year-end 2009 to a level mayzhe 78 billion at the end of 2011 [2, p. 3].

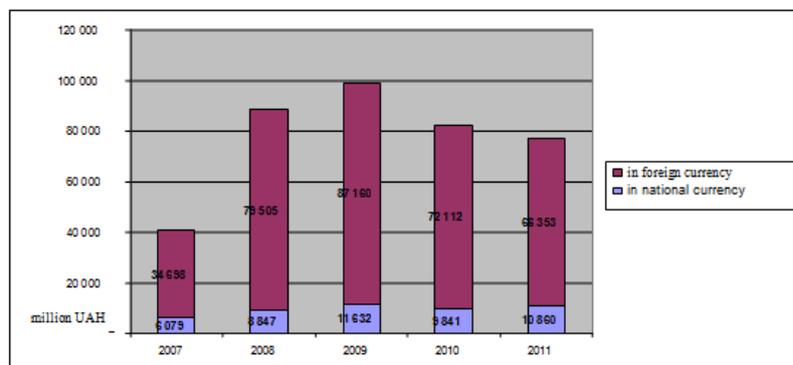
According to pic. 1 in 2011, the share of loans in foreign currency compared to 2010 decreased by 5,758 billion USD (7,99 %) and UAH 20,806 billion (23,87 %) compared to 2009.

With regard to mortgage loans in local currency, their size in 2011 increased by UAH 1.019 billion (10,35 %) compared to 2010. On the one hand, it is better because neither the lender nor the borrower in this case there is no currency risk. But on the other - hryvnia deposits are usually located at a shorter time and at a higher interest rate – but it does present mortgages less available [3]. Compared with 2009, the amount provided mortgage loans in local currency decreased by 772 million USD (6,64 %).

In 2011, the largest share of foreign currency is the U.S. dollar – 95,7 %, followed by other currencies and their share is 2,8 % and 1,5 % in the euro [4].

Before the crisis in Ukraine mortgages were given for 10–15 years, and several banks offering these products for 20 years. Most lenders have advanced while another condition – at the end of the term of the loan agreement the borrower’s age should be less than the retirement age.

However, after the crisis of mortgage loans issued for a shorter time. The longest term of the loan market as of May 2011 is 15 years, while the average for the market – 7 years [5].

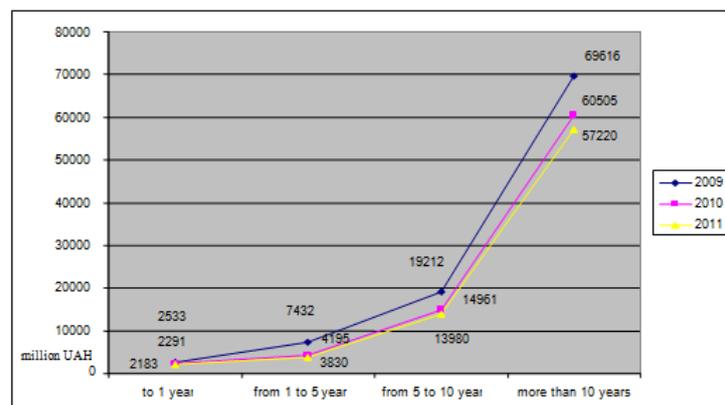


Pic. 1. Mortgage loans to households by currency

Partly this happens because the banks can not get access to more long-term capital to finance new mortgages. But another reason is that lending in the shorter term significantly simplifies the evaluation capacity of the borrower to repay the loan, which reduces the risks of the bank.

According to Pic. 2 in 2011, mortgage loans for up to 1 year was granted in the amount of 2,183 billion USD, 108 million less than the previous year and 350 million less than in 2009. The size of loans from 1 to 5 by the end of 2011 amounted to 3,83 billion USD,

365 million less than in 2010 and at least 3,602 billion UAH in 2009. In 2011 the amount of loans for more than 5 years was 57,22 billion USD, which is less than UAH 3,285 billion in 2010, and at least UAH 12,396 billion in 2009 [4]. These data show that the mortgage market may develop in terms of long-term loans to housing insecurity as it is in the public housing and the relatively small size of the average wage does not allow to save and buy a home, so the main and the most appropriate form of satisfaction of such needs is a mortgage more than 10 years.



Pic. 2. Mortgage loans to households for maturity

The situation with mortgages in Ukraine requires immediate positive change, because the mortgage market is closely linked to many important sectors of the economy such as construction, metallurgy, building materials, extractive industry and so on [5].

In 2012, the state had raised the issue of housing needs and economic growth in the mortgage market, in accordance with approved April 25 the Government of Ukraine decree № 343 «On approval of the cheaper cost of mortgages for affordable housing for people who need to improve their living conditions». The resolution is determined by the mechanism reduce the cost of mortgages for affordable housing for people who need better housing, through reimbursement of interest on loans obtained for the construction (reconstruction) or purchase of facilities under construction or not implemented at customer sites taken into operation after 2007 housing (apartments in apartment buildings, individual homes or property rights to them). In addition to this list of objects which can be acquired dwelling excluding individual houses, commissioned the construction of which is borrowers defined city state administrations and the

final decision on granting a loan to a borrower for the construction (reconstruction) or housing in the facility accepts bank under with its internal rules [6].

On 01.12.2012, the state's share in the financing of housing starts small – Only 1 %. However, the other 99 % are funded by customers. Amounts allocated from the budget for the discount program is unable or affect the amount of housing queue or change the situation on the market. Secondary real estate lending segment left just three major players among the 50 leaders in Asset UKRSIBBANK, BM Bank and VTB Bank temporarily suspended lending to the «primary» and «secondary housing». In this case, BM Bank and VTB Bank are loan programs with the mortgage institutions [7].

Average market rates at the primary and secondary markets for various term loans shown in table 1.

Mortgage on the secondary market with no restrictions on its location on the security of the purchased item available in 27-banks among the 50 leaders of the assets. Outline of a loan for more than 20 years, as demand for mortgage loans in Ukraine formed as a long-term basis (table 2, 3).

Table 1*Lending in the mortgage market in Ukraine*

Loan term, years	Primary market		Secondary Market	
	The average real rate on 01.12.2012, annual	The number of banks that provide loans for such period	The average real rate on 01.12.2012, annual	The number of banks that provide loans for such period
1	-	-	24,26 %	21
5	20,55 %	18	22,58 %	23
10	20,32 %	18	22,54 %	18
15	20,49 %	15	22,99 %	14
20	18,79 %	11	21,79 %	10
25	15,05 %	1	-	-
30	15,04 %	1	-	-

Table 2*Lending in the secondary market for a period over 20 years*

First payment	Bank	Real rate, %	
		min	max
10 %	Savings (assuming provide additional collateral)	18,57	18,6
20 %	Ukrgazbank	17,9	17,9
25 %	Savings bank of Ukraine	18,57	18,6
30 %	Savings bank of Ukraine	12,57	12,57
	Erste Bank	19,88	19,93
	Unicredit Bank	20,55	20,59
	Universal Bank	24,47	24,53
	Pireus Bank	22,59	22,65
	Kredobank	23,48	23,52
	Ukrsocbank, UniCredit Bank™	24,26	24,3
	Megabank	25,19	25,3
	First Ukrainian World participating Bank	25,27	25,54
Savings bank of Russia (Ukraine)	25,41	25,44	

Table 2 (continuation)

35 %	Savings bank of Ukraine	17,57	17,6
40 %	UKRAINIAN BUSINESS BANK	21,45	23,08
	Savings bank of Russia (Ukraine)	24,91	24,94
50 %	Pireus Bank	22,1	22,15
	Credit Agricole	23,16	23,25
	Kredobank	23,23	23,27
	Savings bank of Russia (Ukraine)	24,41	24,44
70 %	Industrialbank	24,1	24,1
80 %	Industrialbank	23,1	23,1

Table 3

Loans for housing in the primary market of Ukraine

Object	Bank	First payment	Term, years	Real rate, %	
				min	max
Any place of location	Credit Agricole	50 %	1-20	23,16	27,62
	Bank 3/4	50 %	1	25,89	25,92
	Kredobank	30 %, 50 %	1-20	24,23	26,25
	OTP Bank	30 %	1-15	26,84	28,83
	Savings bank of Russia (Ukraine)	30 %, 40 %, 50 %	1-20	24,46	26,83
	UKRAINIAN BUSINESS BANK	40 %	1-20	21,45	24,48
	Ukrsocbank, UniCredit Bank™	30 %	1-20	23,26	25,03
	Khreschatik	40 %	1	25	25
Habitation is in Sun luch	BM Bank	25 %	1-20	15,09	17,74
RC «Holguin city»	Kievan Rus	20 %, 40 %, 50 %	1-10	15,59	19,67
Objects «Housing Invest»	Savings bank of Ukraine	30 %, 40 %	1-20	17,66	20,85
RC «Elegant»	Pireus Bank	30 %, 51 %	1-20	18,1	21,27
Bucha	Tavrika	30 %	1-30	15,04	16,81
Kyiv		40 %, 60 %, 80 %	1-20	12,82	18,8
Cottage town «bright stars»					
Objects «Kievgorstroj»	Ukrghazbank	20 %	1-20	17,95	20,57
RC «Gull-2»	Ukrghazbank	20 %, 50 %	1-20	15,35	18,39
RC «Park Lake»	Delta Bank	30 %, 40 %	1-10	20,3	23,09
	Ukrsocbank, UniCredit Bank™	30 %	1-20	21,06	22,83
RC «Bast Grad»	Ukrsocbank, UniCredit Bank™	40 %	1-20	16,3	18,03
RC «Grand Life»		25 %	1-20	21,05	21,92
RC «River Stone»		45 %	1-20	21,1	22,83
RC «Vasilkovsky»	Khreschatik	35 %	1	19	19

Today the major factors that hinder growth in the mortgage market in Ukraine and the provision of affordable housing is the lack of specialized institutions of the mortgage market and mortgage insurance guarantee funds, the failure of the banking system to work on international reinvestment schemes, public distrust of the Ukrainian banks –

and in fact, no fundamental principles that should determine the regulation and availability of mortgage interest rates for it.

Conclusions. By promising ways to improve the state of mortgage lending should include the establishment of specialized mortgage banks that may take place in Ukraine only through proper

legal regulation. Consequently, the proposal is only possible in case of new regulations that meet the requirements of the formation of such banks. Also, should work out a mechanism proposed in the said Cabinet decision number 343 and remove the contradictions of the relationships between business and the borrower.

Secondly, it is necessary to establish a unified approach to the definition of mortgage lending and reliable state-accredited companies and sites that can be trusted in mortgage lending, because otherwise this uncertainty is credit risk and losses, repayment of which mostly remains on the borrower.

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